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ECONOMIC EFFECTS OF US/GVN AIR STRIKES  
AGAINST NORTH VIETNAM

US/GVN air strikes against the predominantly rural areas of North Vietnam have had a predictably small economic impact. The economic repercussions are beginning to be greater, however, as the attacks move northward. The recent strikes on the Hanoi - Lao Cai rail line, for example, yielded economic results more significant and directly measurable than all previous strikes on North Vietnam's transport system.

Direct economic damage is estimated at about \$13 million -- measured in terms of the cost of reconstruction and repair of bridges, and of electric power and other economic facilities. In addition, measurable indirect economic losses amount to about \$6 million -- mainly reductions in foreign trade and agricultural output. North Vietnam is transferring a considerable portion of its small resources of skilled labor and construction materials to reconstruct its damaged economic facilities. This transfer constitutes an appreciable drain on the amounts available for North Vietnam's planned investment program and calls for either a reordering of investment priorities or a rapid increase in aid from other Communist countries. On the other hand, the bomb damage has not yet impeded the ability of the economy to support its present military requirements. Furthermore, neither the direct nor indirect effects of the bombing have as yet accumulated sufficiently to endanger the food supply of the population.

North Vietnam is barely self-sufficient in food, net factory industrial output is less than 15 percent of GNP, and there are ambitious plans for economic expansion. Thus, there are strains in all elements of the economy and any disruptions add to the serious problems faced by the regime. The damaged and destroyed bridges and power plants represent years of construction work which was made possible only with foreign assistance. Costs of reconstruction of the bridges, power plants, and POL storage facilities will represent about 6 percent of total annual investment and about 12 percent of annual investment in industry.

If the North Vietnamese should make the decision to attempt complete restoration of the damage they will be assuming a task far beyond their own limited resources. An attempt at complete restoration would preclude the continuance of considerable construction activity in the economy. Moreover, the steel for bridge and petroleum tank reconstruction, and most of the equipment for the restoration of power generating

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capacity must be obtained from foreign sources, mainly Communist China and the Soviet Union.

About 13.5 percent of the country's electric power generating capacity has now been rendered inoperable. The loss of electric power has undoubtedly resulted in an indeterminate reduction of output in some mining, ore processing, fertilizer, food processing, and other industrial plants. The recent successful attack on the Nam Dinh power plant forced the DRV authorities to attempt to spread the resulting power shortage over a large area by directing power from the Hanoi power system to Nam Dinh.

The recent disruption of traffic on the Hanoi - Lao Cai rail line and the continued disruption of traffic on the Thanh Hoa - Vinh line, plus the general harassment of other modes of transportation is affecting the economy in two main ways. First, since the lines carried a number of bulky heavy items, especially logs, lumber and apatite which it will be difficult and expensive to move by other means, there will be a drop in export of these and other commodities and a consequent loss of foreign exchange. Second, the interruption to the normal flow of heavy materials within the country will delay and curtail domestic economic construction and reduce the output of raw material producing and processing industries. The combined economic effect to date is more in the nature of an economic set-back than a significant disruption of economic activity.

Some 18 percent of the petroleum storage capacity has been destroyed. However, the loss of POL storage capacity has not had any measurable effect on the economy since there was excess capacity and the main elements of the POL storage and distribution system have not yet been attacked.

The observable social and psychological reactions to the air strikes reflect no diminution of North Vietnamese determination to press on with the war. Hanoi has continued to stand on its demands that the US must accept the DRV four-point proposal of 8 April. In recent weeks, however, these expressions of victory have been tempered by the considerable emphasis which regime propaganda has placed on the probable long and arduous duration of the conflict. This latter theme in DRV propaganda suggests that the Vietnamese Communists have been sobered by the evident US determination to prosecute the war and by the attrition of the steady air attacks. There is, however, no firm evidence that Hanoi is as yet willing to make any concessions in its position regarding negotiations. Recent reports have revealed some deterioration in the morale of the DRV populace.

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There is no sign that concern over the morale of the people is influencing the determination of the regime to persist in its attitude toward the war.

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